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SLB.N - Q1 2022 Schlumberger NV Earnings Call

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OVERVIEW:

Co. reported 1Q22 revenue of $6b, GAAP EPS of $0.36 and EPS (excluding charges and credits) of $0.34. Expects global revenue growth of around mid-single digits for 2Q22.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Schlumberger earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to the Vice President of Investor Relations, ND Maduemezia. Please go ahead.

Ndubuisi Maduemezia - *Schlumberger Limited - VP of IR*

Thank you, Lea. Good morning, everyone, and welcome to the Schlumberger Limited First-Quarter 2022 Earnings Conference Call. Today's call is being hosted from Oslo following the Schlumberger Limited Board meeting held earlier this week. Joining us on the call are Olivier Le Peuch, Chief Executive Officer; and Stephane Biguet, Chief Financial Officer.

Before we begin, I would like to remind all participants that some of the statements we're making today are forward-looking. These matters involve risks and uncertainties that could cause our results to differ materially from those projected in these statements. I therefore refer you to our latest 10K filing and our other SEC filings. Our comments today may also include non-GAAP financial measures. Additional details and reconciliation to the most directly comparable GAAP financial measures can be found in our first-quarter press release, which is on our website.

With that, I'll turn the call over to Olivier.

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

Thank you, ND. Good morning, ladies and gentlemen. Thank you for joining us on the call today. In my remarks, I will cover our first-quarter results and achievements, followed by our latest view of the market environment and our outlook for the second quarter and the rest of the year, particularly internationally. Stephane will then give more detail on our financial results, and we will open the floor for your questions.

Considering the global context during the first quarter, I'm very pleased with our start of the year. Sequentially, the quarter broadly reflected typical seasonal patterns, except for additional effects of the Russian ruble devaluation and a more pronounced sequential decline in Production Systems. Year-on-year, we delivered a strong increase in earnings and revenue growth, along with operating margin expansion. Our results were particularly strong in Well Construction and Reservoir Performance, where we are maximizing our leading market positions, our top-tier technology performance, and enhanced operating leverage to full effect, both internationally and North America.

All Divisions and Areas grew year-on-year, resulting in 14% overall growth. This was achieved through double-digit revenue growth internationally and by fully capitalizing on our North America exposure, with 32% revenue growth. Operating margins expanded in both North America and in the international markets, and we started the year with the highest first-quarter margin since 2015. This establishes an excellent foundation for our full-year margin expansion ambition.

Well Construction and Reservoir Performance, our core service Divisions, had very strong momentum to start the year. In addition, we secured several new multiyear contracts and improving commercial conditions in a number of geographies and services. Digital & Integration also posted double-digit growth compared to the same period last year, with new critical commercial contracts and significant advance of our digital platform strategy with the launch of our first INNOVATION FACTORI in North America.

In Production Systems, our core equipment Division, year-on-year growth was muted by the impact of supply chain bottlenecks, which have pushed deliveries into subsequent quarters. Despite these transitory challenges, I'm very pleased with the quality and size of the backlog and orders secured in the past 12 months. With improving supply conditions, I'm confident that the execution of our response plan will significantly improve backlog conversion, resulting into an accelerated revenue growth dynamic in the coming quarters.

In Russia, the onset of the tragic conflict in Ukraine and corresponding sanction impacted the later part of the quarter. We swiftly initiated a series of actions to ensure the safety of our people and implement the restrictive measures concerning new investments and technology deployment to our Russia operations. We continue to closely monitor this dynamic situation and remain hopeful for a quick cessation of hostilities.

Overall, and despite unique challenges, I'm very pleased with the results of the quarter. I would like to extend my thanks to the entire Schlumberger team for successfully navigating these developments and delivering an excellent start to what promises to be a year of solid growth and achievement.

Turning now to the macro environment. The energy landscape has evolved significantly over the past few months. Recent events have, on one hand, resulted into a change in the pace of demand recovery, while energy security and supply diversification have also emerged as preeminent global drivers that would shape the future of our industry in addition to decarbonization, capital discipline, and digital transformation. This new dimension will have long-lasting positive implications for energy investments over the next few years.

I would like to share how we see these dynamics developing over the short- and long-term horizons, and more importantly, how this condition will play to Schlumberger's differentiated strength. First, in the short term, commodity prices are elevated as supply conditions continue to tighten due to the impact of capital discipline, consistent OPEC+ policy implementation, and the potential impacts of supply dislocation from Russia.

The industry is responding to this high commodity price environment with accelerated short-cycle investment in North America, led by the private producers, and a gradual increase in investment by the public operators, albeit tempered by capital discipline and bottlenecks in capacity and supply chain. Internationally, short-cycle investments are set to accelerate with the seasonal rebound in the second quarter and more strongly in the second half of the year, led by the Middle East and the key international offshore basin.

Second, the elevation of energy security as a priority will drive further capacity expansion and optionality to deliver more diverse oil and gas supply. This will support additional long-cycle development projects, exploration activity, and brownfield rejuvenation programs.

Third, favorable condition for products and services net pricing improvement have clearly emerged and are expanding across both North America and the international market. This will be a defining characteristic of this up-cycle, considering the service sector's newfound capital discipline and commitment to margin expansion. This improvement is absolutely critical to support returns and investment in capacity that will be needed to deliver on both the short- and long-term oil and gas supply the world needs.

The combination of these effects creates an exceptional sequence for our sector, likely resulting in a cycle of higher magnitude and duration than previously anticipated. Schlumberger has led the sector in reinventing itself over the past few years, aligning closely with industry shifts, customer needs, and increased shareholder value.

Since launching our performance strategy, we targeted trends that are manifesting today by focusing on the development of fit-for-basin technologies, some of which are now unlocking much-needed energy supplies, and by reducing or eliminating GHG emission with our transition technology portfolio and our new end-to-end emissions solutions. We have also expanded manufacturing capacity in key basins, such as in North America and in the Kingdom of Saudi Arabia to tailor fit-for-basin technology delivery.

In Digital, we are enabling transformation in the sector, establishing the industry digital platform—DELFI*; creating more powerful AI solutions; and leading innovation in autonomy. This advance in digital enablement are improving both customer operations and our own efficiency as we evolve workflows and improve execution with insights from data.

Today, Schlumberger is best positioned to capture the benefits of this unique up-cycle. Given the steady execution of our strategy, breadth of our market presence, leading technology portfolio, and our ability to derive premium pricing for performance execution, and value creation for our customers.

Now I would like to share with you our outlook for the second quarter and the second half of the year. Sequentially, we expect a solid quarter of growth in both North America and the international market. Growth in North America will be led by continued short-cycle activity offset by Canadian spring breakup. Internationally, growth will be driven by a seasonal rebound, albeit moderated by the absence of the usual second quarter uptick in Russia, owing to the uncertainty around the ruble depreciation, impact of sanctions, and customer activity decline.

Taken together, this will result in global revenue growth around mid-single digits for the second quarter. We anticipate the operating margins to expand 50 to 100 basis points, driven by further operating leverage and the positive conditions I have outlined. In that context, our sequential margin expansion trajectory is set to resume and subsequently strengthen in the second half of the year, in line with our full year guidance.

Looking further ahead, the second half of the year is shaping up to be particularly strong, based on our view of a significant pipeline of customer activity, upcoming product backlog conversion, and the growing impact of net pricing. This period of the year is typically the strongest half, and 2022 looks to be no exception. While the dynamic situation in Russia and the potential reduction in pace of the demand recovery present near-term concerns, we believe the continued tightness in supply, elevated commodity price, and supplemental investment intended to diversify oil and gas supply should represent a positive offset for 2022 and beyond.

Accordingly, second-half growth will be driven primarily by the international markets, led by the Middle East and key offshore basins. Indeed, the offshore activity already is growing sequentially and visibly year-on-year, will benefit some secular growth in both shallow and deepwater environment as the acceleration of infill drilling and tieback developments will combine with the resurgence of exploration drilling during the summer and with an acceleration of long-cycle development projects ahead of 2023.

Similarly, the Middle East region will benefit from the combination of reinvestment in short-cycle barrels as we approach the end of current OPEC+ agreements and from the commitment to capacity expansion in both oil production and gas development. Additionally, 2022 is set to benefit from higher discretionary spending and higher product sales and year-end deliveries as customers secure the necessary capacity for their 2023 growth plans.

Finally, and critically, we anticipate that net pricing impact will further expand in breadth and scale as the year progresses to benefit margin expansion during the second half and become a unique attribute of this up-cycle. With this backdrop and despite uncertainty linked to Russia, we believe that the favorable market conditions outlined should allow us to maintain our full-year ambition of year-on-year revenue growth in the mid-teens and adjusted EBITDA margin exiting the year at least 200 basis points higher than the fourth quarter of 2021.

I will now turn the call over to Stephane.

Stephane Biguet - *Schlumberger Limited - Executive VP & CFO*

Thank you, Olivier, and good morning, ladies and gentlemen. First quarter earnings per share, excluding charges and credits, was $0.34. This represents a decrease of $0.07 sequentially and an increase of $0.13 when compared to the first quarter of last year. In addition, during the quarter, we recorded a $0.02 gain relating to the further sale of a portion of our shares in Liberty Oilfield Services, which brought our GAAP EPS to $0.36.

Overall, our first-quarter revenue of $6 billion decreased 4% sequentially, while pretax operating margins declined 84 basis points to 15%. These decreases reflect the seasonally lower activity and product sales that we typically experience in the first quarter. The conflict in Ukraine also had an impact on our first-quarter results, although this was largely limited to the effect of the depreciation of the ruble witnessed during the last month of the quarter.

While margins were seasonally lower on a sequential basis, they did increase significantly as compared to the first quarter of last year. Pretax segment operating margin increased 229 basis points year-on-year, while company-wide adjusted EBITDA margins of 21% increased 94 basis points year-on-year, despite the inflationary factors we are facing. This reflects the strength of our operating leverage, new technology uptake, and increasing pricing traction.

Let me now go through the first-quarter results for each division. First-quarter Digital & Integration revenue of $857 million decreased 4% sequentially, with margins declining 372 basis points to 34%. These decreases were primarily due to the effects of seasonally lower digital and exploration data licensing sales, partially offset by improved contribution from our APS projects in Ecuador, following the pipeline disruption of last quarter.

Reservoir Performance revenue of $1.2 billion decreased 6% sequentially, while margins declined 232 basis points to 13.2%. These decreases were due to lower activity in Latin America and the seasonal activity reduction in the Northern Hemisphere.

Well Construction revenue of $2.4 billion was essentially flat sequentially as seasonal reductions in Europe, Russia, and Asia were offset by strong drilling activity in North America, Latin America, and the Middle East. Margins of 16.2% increased 77 basis points sequentially despite the flat revenue, largely due to improved profitability in integrated drilling projects.

Finally, Production Systems revenue of $1.6 billion decreased 9% sequentially and margins decreased 192 basis points to 7.1%. This was due to the effect of lower revenue, following the traditionally higher fourth-quarter product sales, combined with delayed deliveries and increased logistics costs, resulting from global supply chain constraints. These are temporary challenges that we are diligently working to remedy. Once resolved, this will provide for favorable upside to our revenue and margins in future quarters, as our backlog is solid, and we will ultimately return to a normal pace of deliveries.

Now turning to our liquidity. During the quarter, we generated $131 million of cash flow from operations and negative free cash flow of $381 million. Our cash flow generation was seasonally low as a result of the increase in working capital requirements we always experienced in the first quarter. In addition to the typical payout of our annual employee incentives in the first quarter, we saw lower cash collections following the exceptional accounts receivable performance of the fourth quarter.

Our inventory balance also grew due to the product delivery delays in our Production Systems Division, but also to prepare for project start-ups in the second quarter and for the strong growth anticipated for the rest of the year. In addition, we took the decision to increase our safety stocks and lock in prices on certain long-lead items in order to secure supply and hedge against anticipated cost inflation.

Although it is reflected outside of free cash flow, our overall cash position was enhanced by the further sale of a portion of our shares in Liberty, which generated $84 million of net proceeds. Following this transaction, we hold a 27% interest in Liberty. Our working capital and cash flow will improve each quarter for the rest of the year, consistent with our historical trends, and we remain confident in our ability to generate double-digit free cash flow margin on a full-year basis. This will allow us to continue deleveraging the balance sheet and exceed our previously stated leverage targets in 2022.

Based on this and the strengthening industry outlook that Olivier described earlier, we announced today a 40% increase in our quarterly dividend. The increase will be reflected in our July dividend and will result in approximately $140 million of additional dividend payments in 2022 and $280 million on an annualized basis. This will have a minimal impact on our leverage, and we will, of course, remain focused on strengthening the balance sheet.

I will now turn the conference call back to Olivier.

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

Thank you, Stephane. I think we can open the floor to the Q&A session. Thank you very much.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of David Anderson with Barclays.

J. David Anderson - *Barclays Bank PLC, Research Division - Director and Senior North America Oilfield Services & Equipment Analyst*

So with everything that has happened over the past few months, potential -- the outlook over the next several years for your international business would seem to be a primary beneficiary here. I guess my question is the ramp up of that activity. We've seen a lot of NOCs announced contracts, more tenders are on the way. But we have to really see that materially as an activity and we don't have a ton of visibility on that market. I was just wondering if you could just help us understand what's happening on the ground there. It seems like it's just a matter of timing, but are there any challenges that you're facing with mobilizing equipment and services environment? You're clearly confident of being a second half story, can you -- could just provide a little bit more context into kind of how we're getting there, please?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

No. Thank you, Dave. So indeed, first to put things in context, I think the international growth has started to be rebounding last year. I think, as you know, year-on-year in the second half last year, we had already posted more than double-digit growth year-on-year in the second half. You can see that on this quarter, we are already at 10% growth year-on-year, and the majority of our international GeoUnits actually posted double-digit and quite a few above 20% year-on-year. So clearly, the momentum of activity pick up internationally has been initiated, and it's not only short cycle, it's short- and long-cycle as some FID have already been signed last year and more are coming in the way.

So now looking ahead and trying to understand how this is hedging in the future, I think, first, there is a dynamic of pull on international supply that will continue to happen as the demand recovery is happening. And as the market is looking for energy security and, hence, diversification of supply. So international basins at large will benefit from this dynamic in the years to come.

Secondly, you have the dynamic of short-cycle response to the tightness of supply as we face today and will face for the quarter to come. And this will point not only activity up-cycle in the second half of this quarter and in the subsequent quarter in all the short-cycle basins from Middle East to some short-cycle activity offshore, and it will be supplemented in the second half by an acceleration of the long-cycle development.

Indeed, we believe that the conditions are set for long and short cycle to be contributing at the same time to the supply growth of international market. And long cycle is not only offshore, long cycle is some large capacity expansion that national company, major are continuing to post. And offshore markets will also see the condition of major and international producers continue to expand their investment.

So we are seeing this happening today. We are seeing this accelerating in the second half visibly as the combination of short and long will benefit international market. And the OPEC+, as you know, is ending their quota distribution at the end of the third quarter, and this will unlock short cycle. So we have to look Middle East. Middle East and a few countries have already made a commitment to capacity expansion in 2022 and beyond, and this will be supplementing the short-cycle investment. Offshore you have seen some FID approval. You have seen some exploration drilling resuming even last quarter that would just turn into FID and into subsea and deepwater activity uptick in the second half and furthermore in 2023.

So the conditions are set, as I said, for both short and long cycle to contribute to supply from international basins, and we are very well placed to respond to this, considering our favorable market exposure to international markets, our market position with NOCs, and our exposure to both major and independent into key basins internationally.

J. David Anderson - *Barclays Bank PLC, Research Division - Director and Senior North America Oilfield Services & Equipment Analyst*

So Olivier, on the offshore side, you highlighted a number of -- numerous offshore awards in the release today. It covered -- I think it covered most regions. This has typically been a very highly margin-accretive business to Schlumberger. I'm just curious, how much of this is related to the events of the past few months? Are you seeing projects starting to accelerate? I would think you start to see a lot more on the short-cycle activity you're talking about short versus long. I would think maybe short-cycle activity, is it selling because of this? Is that true? Are you starting to see that materialize?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

No. I will comment in two sides. First, offshore markets remain very relevant to many of our customers internationally, very relevant. Why? Because the economics of offshore market, both shallow and deepwater, have improved a lot in the cycle.

Secondly, many of these offshore reserves are very well placed from a carbon footprint. And I think this is something that plays again to reinvestment and expansion.

And third, I think the technology, the integration capability, and digital have made offshore operations more efficient, more effective, having an impact on short-cycle offshore, infill drilling, tie back with huge technology differentiation we have there, and exploration -- near-field exploration on one hand.

And secondly, shorter long cycle. That is a characteristic that we'll see accelerating as the majors and IOCs and some NOC that have unique basin -- advantaged basin, we want to accelerate the FID and we want to accelerate the execution of the FID for contributing supply. And again, integration capability, technology for performance impact, and digital will all combine to make this a reality.

So yes, we have already seen the impact of this and is only set to accelerate and were not necessarily linked to the event happening in the last few weeks. The last few weeks event will have the consequence of diversification of supply and security of supply. And this will favor offshore basins as one of the basins that can contribute to the long-term supply security.

Operator

Next, we have a question from Chase Mulvehill with Bank of America.

Chase Mulvehill - *BofA Securities, Research Division - Research Analyst*

So I wanted to follow-up on Dave's question here on the international side. I mean, obviously, it appears that this international recovery is going to exceed last cycle's recovery. So maybe -- I don't know if you want to take a moment and kind of talk about how this will impact pricing and margin. I mean I was actually just digging through some old models and looking at 2006, 2007, 2008 margins, and obviously, the industry margins back then were much, much better than they were last cycle. So what do you think it would take for the industry to really get back and move towards those 2006, 2007, 2008 margins?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

I think the condition are set for directionally going there, clearly. And I think you have several factors playing. First, the level of activity expansion globally in every basin for every Division is creating the condition for tightness in the capacity of supply, of the service supply and the equipment supply. And this condition are extremely favorable for pricing power because our operators, our customers are looking to secure capacity and to secure delivery assurance as they reinvest into their basins, into their favorable assets to secure this participation to this supply market share.

So first, the pricing movements, as I said, or the pricing attributes will be a key characteristic of this cycle. Secondly, I believe that the industry has realized that technology can make a huge impact on performance, on carbon footprint, and on digitalization to deliver efficiency that we need to accelerate the cycle and to deliver assurance of delivery of these extra barrels. So we believe that we have here the condition for an upside on the technology adoption, an upside on digital transformation of the industry trying to achieve operation automation, achieve drilling autonomy in terms of operation, and all that will combine in addition to decarbonization.

So you have these trends that are new, that will augment the mix effect that this market is giving us today. We have a favorable mix, international and accretive offshore mix. We have a favorable pull and stretch on capacity of the industry with significant discipline on this side of the industry that will lead to pricing expansion. And finally, you have this adoption of digital, adoption of decarbonization, and adoption of any fit-for-basin performance technology that can make an impact to deliver because the industry wants to deliver and participate fully to this cycle. So that's the reason why we are positive on this cycle.

Chase Mulvehill - *BofA Securities, Research Division - Research Analyst*

Okay. If I could follow up quickly. You started to talking about digital a little bit. I mean there's obviously tightening supply chain, you've got emerging labor constraints, you've got accelerated international growth over the next 12 to 14 months, and all this should be pretty positive for digital as the industry kind of searches for ways to do things kind of faster, smarter, and harder. So with that said and with that as a backdrop, have you started to see accelerated digital adoption? And if so, what parts of the international market are you really starting to see accelerated adoption?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

No, I think you laid the case very well. I think digital will be an attribute of efficiency, performance, and transformation in this cycle, no doubt. Everybody recognizes it and everybody is investing towards participating to this digital transformation. We believe with our platform strategy, we have certainly the most compelling offer to the market. And we have been building, as you heard before, for the last three to five years, the foundation of our platform, and we have seen adoption accelerating last year.

So year-to-date, I'm very pleased with the performance, the early performance of the year to our Digital business out of our Digital & Integration Division. It is already contributing to a visible growth year-on-year. All the metrics that we are internally following, be it the customer adoption of our DELFI with the number of users that are using our cloud DELFI capability or be it the number of -- the scale and intensity of multicycle -- of cycle of computing cycle adoption, all these are going sequentially and year-on-year up. So adoption is happening. You have seen some announcement we have done during the quarter, and you continue to see adoption translating into contract and into growth, accretive growth for digital.

Finally, I think and we mentioned it into the EPR, we have been launching a year ago, our INNOVATION FACTORI. INNOVATION FACTORI are digital collaborative centers that we have placed strategically, and we just integrated the last one yesterday in Oslo, Norway. And we are using these places to expose our customers to the capability of our platform with AI and machine learning, using our partner capability integrating into DELFI.

And the customer realized that we can achieve a lot. We have delivered 200 projects collaboratively with our customers and the customer understands the power of our platform through this exposure, and then come away with the ability to scale for enterprise deployment from this INNOVATION FACTORI capability. So this is one other dimension of adoption that we see and as part of our offering to the market. So yes, we are convinced this will be accretive to our growth this year, and this will be also having a fall-through -- positive fall-through of our margin that will support our margin expansion ambition for the full year.

Operator

Next, we go to Arun Jayaram with JPMorgan.

Arun Jayaram - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

Olivier, I wanted to get your perspective on any changes you're seeing in customer spending behavior related to natural gas. You have a very strong international and now U.S. gas prices. I just wanted to get your thoughts if you're seeing any changes there, particularly given the fact that Russia supplies 155 Bcm of gas to Europe.

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

It's a very relevant question. I think it's a very topical subject with the operators. And indeed, we are seeing operators preparing, planning, and being ready for accelerating their gas supply to the world market, internationally and in North America as well. I think this is touching all aspects of exploration, development, and production of gas. And we are very pleased for our exposure, our exposure in North America and our exposure internationally.

Internationally, as you know, we have exposure in conventional gas, and I think you have seen some recent announcement of renewing contracts in commercial gas in Saudi. You are fully aware of our market exposure in Qatar that we have benefited for the last 2 years that have already grown visibly to commit more LNG train for supply to the world. And you have seen also that we are going to participate fully and we are participating fully into offshore integrated gas development similar to what we did a few years back with Zohr in East Mediterranean. We are doing with an asset for fully integrated gas in Turkey, in the Black Sea, where we are taking care of everything from development to the gas facility that will be from -- that will deliver first gas from this. So we are very well exposed.

And finally, unconventional gas internationally, in Middle East particularly, is getting significant support for regional consumption. And you are fully aware of the contract, a very large contract, integrated contract we have with Jafurah in Saudi Aramco. So the exposure we have on gas is unique, conventional, unconventional, offshore, onshore.

So -- and finally, if I have to add one dimension of technology onto it, I was very pleased. This week, we brought the Board to participate to visit in Norway. And we had the opportunity to visit our excellence -- Center of Excellence for subsea processing in Bergen, Norway, where we are manufacturing all of our processing, boosting equipment to serve gas markets in deepwater subsea environment. And in particular, the subsea wet gas compression that will be deployed for Ormen Lange to extend the life of Ormen Lange gas supply to U.K. for the long run. So these participate to the energy security. These participate to the gas development and production, and we are very pleased with our exposure. So we are seeing a signal of acceleration commitment, and we are very well leveraging that for the future.

Arun Jayaram - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

Right. I appreciate that. My follow-up is I wanted to talk a little bit about cash returns. You increased the dividend quite significantly this quarter. But maybe, Olivier or Stephane, you could talk about the framework you're thinking about future cash returns, and how should we be thinking about further dividend increases from here?

Stephane Biguet - *Schlumberger Limited - Executive VP & CFO*

Look, it's a good question. Thank you. Yes, based on the market fundamentals we highlighted, we do expect to continue generating significant free cash flow throughout the cycle. If those favorable conditions persist as we currently anticipate, this will clearly allow us to, at the same time, maintain a strong balance sheet, fund new growth opportunities, and look for additional ways to increase shareholder returns throughout the cycle. So this can take the form of increased dividends, share repurchases, or a combination of both.

So as it relates to a framework, we will, of course, provide further details at our upcoming Capital Markets Day. But at this moment, we set the dividend at a level we are comfortable with to allowing us to balance our continuing deleveraging commitments with the other capital allocation priorities.

Operator

Next, we have a question from Neil Mehta with Goldman Sachs.

Neil Singhvi Mehta - *Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst*

Great. The first question here is just more of a logistical question. I think in the back half of this year, the expectation is to do a Capital Markets Day. So one, any update in terms of timing? But secondly, what do you want to achieve at that event? What are the important strategic priorities that you want to discuss with the investment community?

Stephane Biguet - *Schlumberger Limited - Executive VP & CFO*

So on the logistical side, Neil, the Capital Markets Day will be early November, and you'll receive the invitation pretty soon. I'll let Olivier comment on the main agenda.

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

Yes, the main agenda, as you know, I think, will be to achieve two or three key elements. The first is to lay out our updated view of the mid- and long-term outlook for our industry and across the engines that we want to participate fully into, the core, the digital, and new energy. And as such, document our view of the market scenario and the way our play will expose us to fully participate in each of these three.

The second, obviously, will be to articulate the elements of our strategy that will make you understand the tangible progress we have made, the critical milestones we'll meet by 2025 or by 2030. And finally, we'll document, I will say, our financial ambition and financial and capital framework to support this ambition of our strategic execution for the next five years and with the long horizon of 2030 for our target. So that's what we are aiming to achieve during this Capital Market Day.

Neil Singhvi Mehta - *Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst*

We look forward to it. And the follow-up is can you talk about your exposure to the increased CapEx here at Saudi Aramco and ADNOC? And how you see that trickling across your segments? Where do you expect spending to increase significantly here, across what business lines?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

I think, generally speaking, I think it's not only Saudi Aramco and -- or Saudi and UAE, I think GCC countries and includes Iraq as well, I think, that are set for a significant rebound in both short cycle to respond to the -- unlocking the quota at the end of the year and then long cycle with capacity

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expansion commitments that several countries have made. So we expect the consequence of that would be first, in the second half of the year, activity will start to see an uptick in the form of short cycle, and that will affect both Reservoir Performance and Well Construction.

And we will see also this expanding into offshore and onshore capacity expansion more into 2023. As you know, several contracts have been put in place to support this capacity expansion by this operator with us and the industry at large. And this will see an acceleration of investment in 2023 that will expand beyond the short cycle visibly into this new development, new capacity, beyond what is happening today on gas and unconventional happening today in some of the integrated contract we already own. So it's -- it will be widespread, I would say, and across the --all the Divisions as we move into 2023.

Operator

Next, we have a question from Scott Gruber with Citigroup.

Scott Andrew Gruber - *Citigroup Inc., Research Division - Director, Head of Americas Energy Sector & Senior Analyst*

Yes. So I want to touch on the new energy outlook here, just given how the macro has changed. Obviously, valuations in new energy have come down and your cash flow outlook has improved. So does that mean that in the years ahead we could expect Schlumberger to be investing a bit more aggressively in new energy? Or with a better outlook for the core, is there less urgency to build out the new energy business? How should we think about that?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

No, it remains -- on new energy, we made a critical strategic pillar of our long-term strategy. So we are set to continue to invest into the venture we have created. We are making tactical moves and strategic moves to accelerate organic and inorganic investments. And we continue to monitor the market and continue to hedge and grow our exposure to this. So the market condition that have slightly changed in the last few weeks do not change our view on the new energy outlook.

We have even seen some reinvestments, and you have seen this during the quarter, into geothermal as an alternate source of energy. You have seen that geo-energy being through the Celsius Energy venture that we have created was -- is a domain that was identified by EU, the European Union, to be invested in to substitute gas, and hence, to lessen the dependency on single source of supply of gas. And I think you can certainly anticipate and see that CCS at large is growing as an opportunity for oil industry. And for us, as we work not only with industry, as you have seen the announcement we have made with PETRONAS, but also we are working beyond the industry, as you have seen previous engagement we have and continue to do so.

So I think we continue to develop and mature the technology, ready for scaling them, and we continue to make organic investments and securing inorganic opportunity to augment our capability into that space.

Scott Andrew Gruber - *Citigroup Inc., Research Division - Director, Head of Americas Energy Sector & Senior Analyst*

And you started to touch on my follow-up, which relates to the commercial opportunity and how that develops here going forward. And it does seem like geothermal is going to get a pull here. But can you speak to the other commercial opportunities and how you think those evolve, particularly from a timing and cadence perspective given the backdrop? Does the commercial opportunity materialize more quickly across carbon capture and hydrogen electrolyzer et cetera?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

I think we have been commenting on this before, and I think we'll provide a very comprehensive view at our Capital Markets Day. And I think the biggest and long-term bigger potential is both on CCS and hydrogen market, we believe, first and foremost, and believe that the energy storage, including lithium processing or extraction as well as energy -- stationary energy storage as well as geo-energy geothermal are certainly shorter term and mid-term opportunity that we'll not miss to secure. But we'll come back with more detail and more better framework for you to understand our ambition there.

Operator

Next, we go to Connor Lynagh with Morgan Stanley.

Connor Joseph Lynagh - *Morgan Stanley, Research Division - Equity Analyst*

I wanted to ask about -- I just wanted to ask about the potential recovery in the back half. And particularly OPEC, you were alluding to the cessation of the supply agreement. I guess one thing that surprised us is while there have been some countries that have fallen short of their production targets, OPEC as a group has been able to raise production fairly significantly and there hasn't been as significant an increase in the rig count. I appreciate not all activity is captured in the rig count. But has that surprised you? And when do you think we see a sort of catch-up? Do we need to return to 2019 activity levels to get to 2019 production levels?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

No. First, I think that the OPEC+ indeed has been very strict into implementing the policy in respect of the quota. Second, I think, with very few exceptions, the GCC has been able to indeed unlock this production without significant -- at this moment, significant increase in short-cycle activity to support that increase. This will transition into a necessary investment into supporting the sustained capacity in the coming months.

Until then and until now, it has been that the production of some critical countries were below their sustained capacity potential, hence, the need for reinvesting the need for accelerating investment drilling or intervention was measured and was not necessarily disproportionate compared to the past. I think you will see that transitioning into the second half and accelerating next year. And it will combine with capacity expansion they have committed to.

So there will be a hike in activity on two fronts, the short cycle to this time sustain maximum capacity that is established and an investment that will expand this sustained capacity in the future. So that is set to happen. It wasn't necessarily a big surprise to us. I think that Middle East was a little bit of behind in terms of activity rebound internationally until now, but you will see this catching up in the second half and accelerating in 2023.

Connor Joseph Lynagh - *Morgan Stanley, Research Division - Equity Analyst*

All right. That's helpful context. Maybe just flipping over to the Russia side of things. I'm curious in your full-year revenue growth commentary, what are you contemplating in your Russia operations? Are you expecting significant activity declines? Could you help us frame what the cessation of new investments actually means for your activity levels in the near term here?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

I think it's obviously an extremely dynamic situation. For one, the sanction certainly having an impact on the Russian economy and our operation would not be immune to those effects. But as currently, currency fluctuation as you have seen, our customer activity level today or tomorrow. So

-- and there is also a possibility of further sanction. So the impact to the first quarter, as you have seen, was essentially limited to currency depreciation and dilution. It's very difficult at the moment to predict what the impact may be in the upcoming quarter, considering the uncertainty.

But on flip side, as I've described, the environment that we see and the dynamics we see in the market and the anticipated response to this call for energy security is creating the condition to offset this uncertainty and offset this risk. And also, the decision we have made to suspend new investment will mean that we'll be able to allocate this CapEx to this upcoming opportunity effective this year, and hence, being able to capture this upside in activity in this dynamic environment, and as you say, should allow us to offset and keep our financial ambition intact.

Operator

And next, we go to Roger Read with Wells Fargo.

Roger David Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

I guess I would like to ask two questions that are more or less margin focused. The first on Production Systems, which obviously is lagging for obvious reasons. But if we don't get a strong subsea or offshore deepwater recovery, what else can we expect that would lift the Production Systems margins as we go forward?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

I think there are two elements, I think, we need to -- we should really separate here. The first is the transitory or temporary impact we have had on the excessive cost of logistics and delivery supply chain bottleneck that we have to work through that have led to temporary costs that I think will over time abate and will reduce as we work through this supply chain. We have a corrective action plan with diversification of source of supply using different logics routes, and you heard about our commitment to some critical safety stock for inventory to secure less disruption going forward.

So this, disruption aside, that has had consequential cost, supplementary cost impact, I think we expect this to be more subdued as we go forward and we start to accelerate our conversion of our backlog. So what do we need? I think we have already this in the backlog. We have a very big backlog that we have accumulated for the last few quarters, that we keep growing.

And it's not only subsea. Our production system is made of subsea, as I mentioned, I think we are very proud of some of our market position in subsea, including what we have seen in Norway. But also have a completion with a few contracts that we won in the Middle East, in Brazil, in particular, artificial lift, PCP pumps that you have seen that we have won just in Kuwait, with very good position. Production chemicals that are being pulled as well and our midstream and surface -- Cameron capability that are fully leveraging particularly surface the up-cycle in North America.

So if you combine all of these, we have not only short-cycle exposure with surface in North America of completions, artificial lift. We have long cycle with deepwater and some of our long-cycle participation into some gas facility, as I mentioned, in Turkey. You combine all of these and you have enough backlog to lift and create an uplift into our growth going forward and actually indicative of Production Systems to be accretive to our growth in the second half.

Roger David Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

That was very helpful. The other question I have is a little bit more far reaching. But as we think about -- or let me say, the base case is, let's assume what's happened in Russia stays as is, the sanctions, everything like that through the middle of the decade. Spending in other parts of the world is going to have to increase to make up for lost Russian production at a minimum loss Russian growth, if not absolute lost barrels. And I was wondering, as you look at your margins and you think about sort of an equal distribution of that spending or that production growth in other parts of the world, should it be no impact on Schlumberger's margins, a modest positive or a modest negative if Russia becomes a shrunken market and some of these other areas have to grow in response?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

I think I will not try to compare Russia margin with the rest of our portfolio. I think I will look at it from the strength of the cycle, from the lead market position we have, and from the starting point we have today with having restructured and reset operating leverage, the exposure with digital, the exposure with an increasing offshore long- and short-cycle mix; I think these attributes that convince us that our margin will continue to expand. As we have seen this quarter, we had increased year-on-year both NAM and international margin, and we have been posting the best margin since 2015 and yet despite an impact in the first quarter from Russia.

So I think we are looking at it at -- as you say, the big picture. The big picture includes investment in oil and gas for energy security, diversification that will have a call on international supply as well as in North America, and an increasing mix of offshore and long cycle as capacity needs to be expanded and the reserves that have been depleted through the last down-cycle for the last seven years will need to be expanded again. So that mix is what makes us confident into our trajectory of margin expansion and into the potential uniqueness of this up-cycle compared to past, and hence, the confidence we have in the short and the long term.

Operator

And ladies and gentlemen, we have time for one last question. That's from the line of Ian MacPherson with Piper Sandler.

Ian MacPherson - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst of Oil Service*

Just wanted to wrap up. Olivier, I wanted to ask directly, what is your view of the production trajectory for Russia, assuming the sanctions are what we see today? I know that you don't want to be too specific with regard to the cadence of your impact over the course of this year. But do you subscribe to the idea that, at best, Russia pivots from a steady grower to a steady decliner under the current sanctions regime?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

I think I cannot be speculating on this and the market condition. I think you see the same numbers as we do see. You see that there is, as I said, a potential risk of Russia supply dislocation. I think what is important is that the demand trajectory that is recovering and is set to further increase next year compared to previous prediction, not only to offset that but to also respond to the market, I think, will be contributing to overall growth.

So it's very difficult to predict. I think we are -- this is a very dynamic situation, and we are not here to speculate on that dynamic situation. We know that we have to account for assumption that it could be a demand dislocation. It could be a demand -- supply disruption from the Russia source of supply. Hence, we know and we have seen our customer rotating and starting to anticipate and position themselves for participating to the call on supply that will happen from the second half of this year and the years to come. So that's the only thing we can comment on.

Ian MacPherson - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst of Oil Service*

That's a perfectly fair answer. But maybe put otherwise, how critical would you say that Schlumberger and your Western OFS peers are relative to the domestic Russian OFS industry with regard to their ability to lean on internal OFS resources as opposed to Western technology and kit?

Olivier Le Peuch - *Schlumberger Limited - CEO & Director*

So again, we cannot speculate on this. I think we -- our first and foremost priority is to look after the safety of our people everywhere we operate, including Russia, and to comply with the utmost diligence to the sanction, international sanctions that are in place. To speculate about what are the consequences of the sanction onto the OFS industry in Russia, I think, is something that the future will tell us what is happening. But I think I don't want to be in a position to comment on this at this moment.

Thank you very much. I believe that it's time to close this call. So in conclusion, I would like to leave you with three takeaways. Firstly, our first-quarter financial results represent a strong start to what promises to be a significant year for the company, in particular, the resilience and strength of our core services division and the full participation in the fast-growing North America market have contributed to a very solid year-on-year growth and margin expansion.

Secondly, the activity outlook shaping up favorably as 2022 progresses and is set to support our full-year mid-teens growth ambition, despite the uncertainty in our Russia operations. Furthermore, in the later part of the year, we'll gain from improving market conditions, favorable activity mix in key offshore basins in Middle East, and broader net pricing impact across North America and international markets.

Our confidence in the favorable market conditions and our midterm outlook supports our margin expansion ambition and our commitment to generate double-digit free cash flow. As a result, we have decided to accelerate cash returns to shareholders through a visible increase in our dividend.

Finally, we believe that the consequences of the current crisis will reinforce the market fundamentals for a stronger and longer up-cycle, as a priority on energy security will favor reinvestment in oil and gas supply. Consequently, the outlook for the next few years is improving and absent of global economic setback should translate into an exceptional sequence for the industry. Thank you very much.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation. You may now disconnect.
